

January 31<sup>st</sup>, 2022

Target:  Buyer: 

## Silvergate acquisition of Diem Payment Network Architect Partners Acted as Exclusive Financial Advisor to Diem

Author: Ben Cardinal, ben@architectpartners.com  
More Information: Eric Risley, efr@architectpartners.com  
Peter Stoneberg, pstoneberg@architectpartners.com

### Transaction Overview

On January 31, 2022, Silvergate Bank (NYSE: SI) [announced](#) the acquisition of the intellectual property and technology assets of the Diem Association (“Diem”) used to run a blockchain-based payment network. Architect Partners served as the exclusive financial advisor to the Diem Association, whose members include Meta (Facebook) (NASDAQ: FB), Coinbase (NASDAQ: COIN), Shopify (NYSE: SHOP), Uber (NYSE: UBER), Lyft (NASDAQ: LYFT), a16z, Union Square Ventures, and Ribbit Capital, among others.

### Target: Diem

The Diem Association, a project incubated by Meta, developed an open-source, permissioned blockchain payment network centered on a fully fiat-collateralized stablecoin pegged to the U.S. dollar. The Diem Payment Network (DPN) is designed to facilitate payments for everyday goods and services and cross-border remittances. Notably, consumer protection and regulatory compliance are defining features of the design which includes sophisticated systems to protect against misuse by illicit actors.

Launched in 2019 as Libra and rebranded to Diem in December 2020, Diem was financed and governed by a group of leading technology companies, venture capital firms, and nonprofits. It is currently led by CEO Stuart Levey, who was previously Chief Legal Officer of HSBC and before that Under Secretary for Terrorism and Financial Intelligence for the U.S. Treasury.

Other stablecoin competitors include the Coinbase and Circle backed USDC, Tether backed USDT, and Gemini backed GUSD, while blockchain payment networks include Solana Pay, Stellar, and Algorand. The stablecoin solutions focus on trading and investing applications, rather than payments for goods and services. Existing blockchain payment solutions have yet to show significant transaction volumes.

### Buyer: Silvergate

Silvergate is a Federal Reserve member bank focused on serving businesses in the fintech and crypto ecosystems. In particular, Silvergate provides commercial banking and lending services to notable companies like Coinbase, Kraken, Gemini, FTX, Circle, Paxos, Genesis, Binance US, and ErisX (CBOE). The bank currently holds over \$16 billion of deposits.

Silvergate also operates the Silvergate Exchange Network (SEN), a B2B payment network for Silvergate institutional clients to transfer U.S. dollars to each other, settling in real-time and operating 24/7.

Founded in 1988, the bank is headquartered in San Diego, California. It is currently led by CEO Alan Lane and has approximately 250 employees, who together serve over 1,300 fintech and cryptocurrency clients. Silvergate went public in November of 2019 and its stock price has risen 750% since then. Silvergate’s stock responded positively to the Diem acquisition announcement, up 12.1% on the day of announcement.

### Transaction Parameters

Diem’s DPN-related intellectual property was acquired by Silvergate Bank in an asset purchase for consideration of 1,221,217 shares of Silvergate Capital Corporation and \$50mm in cash.

Comparable crypto payments M&A transactions include Stellar | Wyre (ND); NYDIG | Bottlepay (\$290M, [M&A Alert](#)); Voyager | Coinify (\$99M, [M&A Alert](#)); Nuvei | Simplex (\$250M, [M&A Alert](#)); Binance | Swipe.io (ND, [M&A Alert](#)); Coinsquare | BlockEQ (ND).

### Strategic Rationale

Silvergate had previously announced an agreement with Diem in May 2021 to issue Diem USD, the stablecoin behind Diem.

Silvergate anticipates using the acquired Diem assets to launch a regulatory compliant stablecoin-based crypto payment system in 2022.

### Architect Partners’ Observations

It is no secret that Diem faced stiff regulatory headwinds due to the involvement of Meta. That resulted in substantial efforts to seek feedback from governments and regulators around the world to ensure regulatory compliance. In fact, as highlighted in Diem’s press release, the project evolved substantially and improved as a result, with one senior U.S.-based regulator indicating that Diem was the best-designed stablecoin project the U.S. Government has seen.

As highlighted previously, while stablecoins are commonly utilized for trading purposes, the use of stablecoins as a form of payment for goods, services, and remittances is in its infancy. According to McKinsey & Co, the global payments market generates \$1.9 trillion in annual revenue. The opportunity for crypto payments to augment or partially replace fiat payments is massive, and with the acquisition of Diem, Silvergate is well positioned to capitalize on this market opportunity.

### Sources

[Silvergate Website](#), [Diem Website](#), [Press Release](#), [AP Insights](#), [2021 McKinsey Global Payment Report](#)